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SIPDIS

EEB FOR DAS HENGEL
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EUR FOR DAS BRYZA

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TAGS: [AJ](#) [ENRG](#) [GR](#) [IR](#) [IT](#) [RS](#) [TU](#)
SUBJECT: EDISON CONCERNED ABOUT AVAILABILITY OF AZERI GAS
FOR TGI AND STATUS OF INTERGOVERNMENTAL AGREEMENT; ASKS FOR
USG ASSISTANCE

REF: A. ROME 842

Classified By: Economic Minister Counselor Tom Delare for reasons 1.4b
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¶1. (C) Summary: Representatives of Italian energy company Edison told EconOff on an August 29 meeting that they are facing a tight deadline to fully commit to investing in the Turkey-Greece-Italy (TGI) project, planned to bring gas from Azerbaijan into Europe starting around 2012 or 2013. They asked USG assistance in two areas the company believes progress is critical for final sanctioning of TGI: availability of Azerbaijan gas for TGI and USG support for the trilateral Intergovernmental Agreement among Italy, Turkey and Greece that is currently under review by the EU Commission. End summary.

¶2. (C) Edison representatives Roberto Poti, Corporate Business Development Vice-President, and Elio Ruggeri, TGI Project Leader, informed EconOff of Edison's concern for the availability of Caspian Sea gas for TGI because Azerbaijan is dragging its feet in initiating the process to select a buyer for gas that will come on stream around 2012-2013, mainly from its Shah Deniz field. In addition, the Edison representatives reiterated the points raised in reftel that Russia is continuing to pressure Azerbaijan into selling to Gazprom all of its gas, which would "kill" TGI as Azerbaijani gas is the only Caspian Sea gas available to meet the project's need of around 6 to 8 bcm of gas per year. Poti explained that to meet a joint Italian Ministry of Economic Development and European Commission deadline for a 2012 TGI operation start, Edison must decide to fully commit to the project by late 2009, and would prefer not to wait until then. Edison fears that further footdragging by Azerbaijan on selecting a buyer for its future gas, combined with continuing pressure from Russia will jeopardize the TGI project.

¶3. (C) The Edison representatives requested USG assistance in encouraging Azerbaijan to start the bidding process for the Shah Deniz field gas as soon as possible. They stressed that Edison is not asking for preferential treatment, but only for Azerbaijan to hold a prompt and fair bidding process. They believe Edison could win such a bid since, aside from Gazprom, TGI is the best positioned to be an immediate buyer for Azerbaijan gas that will be available for export. According to their figures, the Shah Deniz field will produce

around 13 bcm of gas per year, of which 4 bcm will be exported to Turkey, and 2 bcm will be used for the Georgian and Azerbaijani local market. TGI would provide Azerbaijan an export outlet to Europe for the remaining gas.

14. (C) The Edison representatives also asked for the USG to communicate in more unequivocal terms to Azerbaijan its support for TGI in order to provide the Azeri government the political cover to resist Russian pressure to sell all of its future gas to Gazprom. Stating that "it is time to chose a project", Ruggeri said that the perceived lack of USG clarity in support between TGI and Nabucco does not help Azerbaijan stand firm against Russian pressure (in addition to not encouraging it to move forward on the sale of its future gas). Ruggeri argued for a more direct USG position backing the gas projects that are closer to start of operations. Ruggeri added that TGI is this project as it will use already established infrastructure in Georgia and Turkey, only needs the building of the 807 kilometers Italy-Greece stretch, and will not require additional gas from other sources such as Iraq or Turkmenistan. Ruggeri explained that the current USG position of supporting any gas projects that diversify European gas supplies does not send the right signals to Azerbaijan. He also clarified that Edison is not arguing for an end to support for Nabucco, but only for a USG recognition that TGI and Nabucco have different timelines, and as such, the USG should support more directly the project (TGI) that is closer to coming on-line. He concluded by stating that the securing of Azerbaijan's gas for TGI would send a strong political message that would help in further opening the European fourth gas corridor.

15. (C) With regards to the Intergovernmental Agreement among Italy, Turkey and Greece (the ITGI Agreement), the Edison representatives stated that it should serve as the basis for the creation of the regulatory and institutional framework for the transport of Azerbaijan Caspian Sea gas to Europe, and asked for USG support in defending it in light of the EU Commission's current review. According to Ruggeri, one of the key reasons for keeping the ITGI Agreement is that it overcomes Turkey's long-sought goal to act as a hub for TGI (which would have given it a monopolistic control of the flow of gas), replacing it with a pure transit scheme with clear and cost-reflective tariff principles applied to Turkey, Greece and Italy. Edison is concerned that the EU Commission may come up with a completely new agreement or may require that the parties renegotiate it, both of which would give Turkey the leverage to seek greater concessions that would further delay TGI. As a compromise, Edison would support a coordinated development by all three TGI partners, the EU Commission and Azerbaijan of the gas transit regulatory framework.

16. (C) Comment: The Edison representatives asked for USG feedback, even if preliminary, on the points raised. Post requests guidance, as well as any information that can be shared with Edison with regards to their concerns on the availability of Azerbaijan gas for the TGI project.

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